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THE AUTOMOBILE ASSOCIATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2010

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THE AUTOMOBILE ASSOCIATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2010

The Directors present their report and audited financial statements of The Automobile Association Limited ("the Company") for the year ended 31 January 2010

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company is the provision of roadside assistance

On 1 February 2009, the Road Services for Commercial customers activities were transferred into the Company from other AA Group companies. The impact of the transfer has been to increase the operating profit and the carrying value of trade debtors and amounts owed with group undertakings

The profit and loss account for the year is set out on page 5. The profit before taxation of the Company for the year to 31 January 2010 was £177.9m (2009: £183.6m)

The Company's key financial and other performance indicators during the year were as follows

	2010 £'000	2009 £'000	Change %
Turnover	477,058	425,390	12
Employment costs (see note 4)	(138,099)	(158,173)	(13)
Depreciation of tangible fixed assets	(17,530)	(19,425)	(10)
Other operating expenses	(120,306)	(96,259)	25
Total operating expenses excluding exceptional items	<u>(275,935)</u>	<u>(273,857)</u>	1
Operating profit excluding exceptional items	<u><u>201,123</u></u>	<u><u>151,533</u></u>	
Operating efficiency	58%	64%	

Operating efficiency is defined as the amount of turnover expended on operating costs

Turnover has increased by 12% primarily due to the underlying trading of the Consumer sector which has shown continued growth, combined with the transfer of the Road Services for Commercial customers activities from Automobile Association Development Limited which complements the existing Roadside Assistance business

Operating efficiency has improved from 64% to 58%. This has been achieved principally through operational cost efficiencies at the roadside and reduced IT application and support costs and also the transfer of Road Services for Commercial customers activities as noted above

FUTURE DEVELOPMENTS

The Company is to continue investment in the AA brand, system development, product initiatives and people

THE AUTOMOBILE ASSOCIATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2010 (continued)

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year (year to 31 January 2009 £nil) The result for the year has been transferred to reserves

DIRECTORS

The directors of the Company during the period and up to the date of signing the financial statements were as follows

J A Goodsell
S M Howard
A J P Strong
J R M Austin
A K Boland
M A Cutbill
S Dewey
S D G Douglas
A T Gisby
D Wallace

J Davies is the Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Jersey Company law requires the directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company at the period end and of the profit or loss of the Company for the period then ended In preparing these financial statements, the directors should

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- specify which generally accepted accounting principles have been adopted in their preparation, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

THE AUTOMOBILE ASSOCIATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2010 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, its performance and position are described in the business review on page 1.


The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

APPOINTMENT OF AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office as auditor of the Company.

BY ORDER OF THE BOARD



J DAVIES
COMPANY SECRETARY

6 July 2010
Registered Office
22 Grenville Street
ST HELIER
JE4 8PX
Jersey

Registered number 73356

THE AUTOMOBILE ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE AUTOMOBILE ASSOCIATION LIMITED

We have audited the company's financial statements for the year ended 31 January 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the company's affairs as at 31 January 2010 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.



James Lenton
For and on behalf of Ernst & Young LLP
London

7 July 2010

THE AUTOMOBILE ASSOCIATION LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JANUARY 2010

	Notes	2010 £'000	2009 £'000
TURNOVER	2	477,058	425,390
Exceptional turnover	2	<u>-</u>	<u>9,979</u>
		477,058	435,369
 OPERATING COSTS			
Operating costs		(275,935)	(273,857)
Exceptional items		(12,951)	(13,920)
	3	(288,886)	(287,777)
Other operating income	5	-	14,487
OPERATING PROFIT		188,172	162,079
Income from shares in group undertakings	6	-	16,500
Loss on disposal of fixed assets		(268)	(203)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		187,904	178,376
Interest receivable and similar income	7	63,500	75,103
Interest payable and similar charges	8	(73,463)	(69,904)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		177,941	183,575
Taxation on profit on ordinary activities	9	(42,765)	(46,964)
PROFIT FOR THE FINANCIAL PERIOD	20	135,176	136,611

All income and expenditure arises from continuing operations

The notes on pages 8 to 24 form part of these financial statements

THE AUTOMOBILE ASSOCIATION LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JANUARY 2010

	Notes	2010 £'000	2009 £'000
Profit of the financial period		135,176	136,611
Actuarial loss recognised on defined benefit pension schemes	18	(226,800)	(187,400)
Movement on deferred tax relating to pension provision	18	61,404	48,273
Current UK corporation tax on defined benefit pension schemes	9	2,100	4,759
Exchange difference on retranslation of loan balance with subsidiary undertakings		-	145
Total recognised gains and losses since last Annual Report		<u><u>(28,120)</u></u>	<u><u>2,388</u></u>

The notes on pages 8 to 24 form part of these financial statements

THE AUTOMOBILE ASSOCIATION LIMITED

BALANCE SHEET AT 31 JANUARY 2010

	Notes	2010 £'000	2009 £'000
FIXED ASSETS			
Tangible assets	10	55,079	56,266
Investments in group undertakings	11	2,996	2,996
Other investments - cash deposits		<u>866</u>	<u>866</u>
		58,941	60,128
CURRENT ASSETS			
Stock - finished goods		1,750	1,677
Debtors	12	1,530,870	1,510,831
Cash at bank and in hand		<u>11,098</u>	<u>3,069</u>
		1,543,718	1,515,577
CREDITORS (amounts falling due within one year)	13	(933,002)	(1,030,573)
NET CURRENT ASSETS		<u>610,716</u>	<u>485,004</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		669,657	545,132
CREDITORS (amounts falling due after more than one year)	14	(15,140)	(16,950)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(37,278)</u>	<u>(40,381)</u>
NET ASSETS EXCLUDING PENSION LIABILITY		617,239	487,801
PENSION LIABILITY	18	(177,523)	(19,965)
NET ASSETS		<u><u>439,716</u></u>	<u><u>467,836</u></u>
CAPITAL AND RESERVES			
Called up share capital	19	50	50
Profit and loss account	20	366,747	394,867
Capital contribution reserve	21	<u>72,919</u>	<u>72,919</u>
EQUITY SHAREHOLDERS' FUNDS	22	<u><u>439,716</u></u>	<u><u>467,836</u></u>

The financial statements on pages 5 to 24 were approved by the board of directors on 6 July 2010 and were signed on its behalf by

S M HOWARD
DIRECTOR



The notes on pages 8 to 24 form part of these financial statements

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in the Island of Jersey incorporating United Kingdom accounting standards and in accordance with the Companies (Jersey) Law 1991. These financial statements are prepared on the going concern basis.

The Company is exempt from the requirement to prepare consolidated financial statements as it is a wholly owned subsidiary of Acromas Holdings Limited, whose consolidated financial statements are publicly available. These financial statements present information about the entity as an individual undertaking.

Cash flow statement

The Directors have taken advantage of the exemption available under FRS 1 (Cash flow statements) of the requirement to prepare a cash flow statement as a consolidated cash flow statement has been presented in the financial statements of the ultimate parent undertaking, Acromas Holdings Limited.

Turnover

Turnover, which excludes value added tax and insurance premium tax, represents subscriptions and sales of goods and services. Subscription income is recognised over the period of the subscription. Turnover in respect of other items is recognised at point of delivery of goods or on provision of service.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Freehold properties	50 years
Long leasehold properties	50 years
Short leasehold properties	over the period of the lease
Fixtures, fittings and equipment	3 – 20 years

Investments and associates

Investments are valued individually at cost less any provision for impairment. Dividend income from investments is recognised in the period when they are declared and approved.

Stock

Stock is valued at the lower of cost or net realisable value.

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the assets' useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Retirement benefits

Certain of the Company's employees were members of a defined benefit pension scheme.

The Company has a commitment to provide post retirement private medical cover for certain current and past employees. Both schemes have been treated as defined benefit schemes, in line with FRS 17.

The amounts charged to operating profit are the current costs and gains and losses of settlements and curtailments. They are included as part of staff costs. Past services costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised on a straight line over the period until vesting occurs. The expected return on the schemes' assets is included in the interest receivable and the increase during the period in the present value of the schemes' liabilities arising from the passage of time is included in the interest payable. Actuarial gains and losses are recognised immediately in the statement of recognised gains and losses.

The defined benefit pension scheme is funded, with assets of the schemes held separately from those of the Company, in separate trustee administered funds. Defined benefit pension scheme assets are measured using market values. Defined benefit pension scheme liabilities are measured using the projected unit actuarial methods and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets / liabilities on the face of the balance sheet. The value of a net pension benefit asset is restricted to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Provisions

A provision is required when the company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are discounted where the impact is material.

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 ACCOUNTING POLICIES (continued)

Provisions (continued)

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring that has been communicated to affected parties

In relation to unoccupied properties, where a decision has been made prior to the period end to vacate the property, provision is made for future rent and similar costs net of rent income expected to be received up to the estimated date of final disposal. The unwinding of the provision is discounted on a reducing balance basis, using the prevailing LIBOR rate for the duration of the liability.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods that are different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Gains and losses arising on the translation of assets and liabilities are taken to reserves. Other exchange differences are taken to the profit and loss account.

2 TURNOVER

All turnover originates in the UK. Turnover by destination is not materially different from turnover by origin. Segmental analysis showing the analysis of turnover, results and net assets is not included since, in the opinion of the Directors, such an analysis would be seriously prejudicial to the business.

The exceptional item in the prior year related to the recovery of overpaid VAT.

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 OPERATING PROFIT

	2010 £'000	2009 £'000
Staff costs (see note 4)	138,099	158,173
Depreciation of tangible fixed assets		
- Owned assets	3,834	6,215
- Under finance leases	13,696	13,210
Raw materials and consumables	5,222	5,608
Other external charges	111,897	87,617
Auditors' remuneration	243	140
Property operating lease rentals	2,093	2,024
Other operating lease rentals	851	870
Operating exceptional items	12,951	13,920
	<u>288,886</u>	<u>287,777</u>

Operating exceptional items in the current year relate to restructuring costs (redundancy costs and professional fees)

Operating exceptional items in the prior year relate to (a) onerous property provision future lease costs in respect of vacant properties, net of expected sub-letting income and (b) restructuring costs (redundancy costs, professional fees, the separation of operations from the previous ultimate parent undertaking and the reorganisation of group operations) There is an associated tax credit of £3 6m (2009 £3 9m)

The Company's auditor provided no services other than the annual audit during either year

4 EMPLOYEES

The average number of persons employed by the Company during the year was 6,849 (2009 6,833)

Staff costs during the year amounted to	2010 £'000	2009 £'000
Wages and salaries	114,947	131,039
Social security costs	10,124	11,764
Other pension costs	13,028	15,370
	<u>138,099</u>	<u>158,173</u>

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 OTHER OPERATING INCOME

	2010	2009
	£'000	£'000
Exceptional item	<u>-</u>	<u>14,487</u>

The prior year exceptional item relates to interest received on overpaid VAT now reclaimed

6 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2010	2009
	£'000	£'000
Dividends from subsidiary undertakings	<u>-</u>	<u>16,500</u>

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2010	2009
	£'000	£'000
Bank interest receivable	-	27
Expected return on pension assets (note 18)	63,500	74,700
Other interest receivable	<u>-</u>	<u>376</u>
	<u>63,500</u>	<u>75,103</u>

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2010	2009
	£'000	£'000
Interest on pension scheme liabilities (note 18)	70,200	65,600
Unwinding of discount rate on provisions (note 16)	1,103	1,101
Finance lease interest	2,158	3,192
Other interest payable	<u>2</u>	<u>11</u>
	<u>73,463</u>	<u>69,904</u>

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 TAXATION ON LOSS ON ORDINARY ACTIVITIES

The tax charge / (credit) is made up as follows	2010	2009
	£'000	£'000
Current Tax:		
- Group relief payable	40,576	50,922
- Adjustments in respect of prior periods	2,901	(1,606)
- Foreign tax	2	2
Total current tax charge	43,479	49,318
Deferred tax:		
- Origination and reversal of timing differences	1,916	1,536
- Adjustments in respect of prior periods	(2,630)	(3,890)
- Total deferred tax (see note 17)	(714)	(2,354)
Total tax charge on ordinary activities	42,765	46,964
Deferred tax (credited) directly to reserves	(61,404)	(48,273)
Current tax (credited) directly to reserves	(2,100)	(4,759)
	(63,504)	(53,032)

The current tax charge represents payments for group losses

The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2010	2009
	£'000	£'000
Profit on ordinary activities before tax	177,941	183,575
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28 33%)	49,823	52,007
Effects of		
Permanent differences	(7,025)	528
Accelerated capital allowances	(30)	(584)
Adjustments to tax charge in respect of previous years	2,901	(1,606)
Other short term timing differences	(4,292)	(5,746)
Foreign taxation	2	2
Tax losses utilised	-	(42)
Current tax credited to STRGL	2,100	4,759
Total current tax charge	43,479	49,318

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 TANGIBLE ASSETS

	Land and Buildings			Fixtures, fittings and equipment	Total
	Long Freehold £'000	Long Leasehold £'000	Short Leasehold £'000	£'000	£'000
Cost					
At 1 February 2009	9,429	5,755	108	111,515	126,807
Additions	-	-	-	17,033	17,033
Inter-group transfers	-	-	-	(7,854)	(7,854)
Disposals	-	-	-	(4,342)	(4,342)
At 31 January 2010	9,429	5,755	108	116,352	131,644
Depreciation					
At 1 February 2009	2,038	3,875	47	64,581	70,541
Charge in the year	192	116	7	17,215	17,530
Inter-group transfers	-	-	-	(7,478)	(7,478)
Disposals	-	-	-	(4,028)	(4,028)
At 31 January 2010	2,230	3,991	54	70,290	76,565
Net book value					
At 31 January 2010	7,199	1,764	54	46,062	55,079
At 31 January 2009	7,391	1,880	61	46,934	56,266

Fixtures, fittings and equipment include the following assets held under finance leases

	2010 £'000	2009 £'000
Cost	60,691	59,759
Accumulated depreciation	(35,014)	(25,494)
Net book value	25,677	34,265

11 FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings £'000	Shares in associated undertakings £'000	Total £'000
Cost			
At 1 February 2009 and 31 January 2010	2,500	496	2,996

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 DEBTORS

	2010	2009
	£'000	£'000
Amounts receivable within one year		
Trade debtors	17,962	5,608
Amounts owed by group undertakings	1,480,608	1,463,686
Other debtors	1,835	16,103
Prepayments and accrued income	5,550	895
	<u>1,505,955</u>	<u>1,486,292</u>
Amounts receivable in more than one year		
Deferred tax asset (see note 17)	24,915	24,539
	<u>1,530,870</u>	<u>1,510,831</u>

Amounts owed by group undertakings are unsecured, have no repayment terms and bear no interest

13 CREDITORS (amounts falling due within one year)

	2010	2009
	£'000	£'000
Bank loans and overdrafts	2,771	780
Obligations under finance leases and hire purchase contracts (note 15)	12,961	13,867
Trade creditors	2,812	2,344
Amounts owed to group undertakings	733,563	820,567
Other taxes and social security	11,526	642
Other creditors	2,748	2,999
Accruals and deferred income	166,621	189,374
	<u>933,002</u>	<u>1,030,573</u>

The amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest

14 CREDITORS (amounts falling due greater than one year)

	2010	2009
	£'000	£'000
Obligations under finance leases and hire purchase contracts (note 15)	<u>15,140</u>	<u>16,950</u>

15 OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts

	2010	2009
	£'000	£'000
Amounts payable		
Within one year	12,961	13,867
In two to five years	15,140	16,950
	<u>28,101</u>	<u>30,817</u>

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Restructure £'000	Property £'000	Total £'000
At 1 February 2009	766	39,615	40,381
Increase in the provision	-	-	-
Provision reversal	(442)	-	(442)
Discount unwinding	-	1,103	1,103
Utilised in the year	(22)	(3,742)	(3,764)
At 31 January 2010	<u>302</u>	<u>36,976</u>	<u>37,278</u>

The restructuring provision relates to redundancy and other related costs following a Company restructuring. It is anticipated that the balance at 31 January 2010 will be substantially utilised by 31 January 2011.

The property provision relates to future lease costs of vacant properties for the remaining period of the lease, net of expected sub-letting income. A significant element of this provision relates to the Service Centre sites, which upon termination of operations were not transferred to a third party. These sums are expected to be paid out over the next 14 years. The provision has been calculated on a pre-tax discounted basis.

17 DEFERRED TAXATION

Deferred tax assets / (liabilities) comprise

	Amounts provided		Amounts unrecognised	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Timing differences on				
Accelerated capital allowances	21,573	19,280	-	-
Other short term timing differences	3,342	5,259	-	-
Capital gains rolled over	-	-	(592)	(592)
Deferred tax asset / (liability)	<u>24,915</u>	<u>24,539</u>	<u>(592)</u>	<u>(592)</u>
excluding that relating to pension asset (note 12)				
Pension deferred tax asset / (liability)	55,554	(6,188)	-	-
Deferred tax asset / (liability)	<u><u>80,469</u></u>	<u><u>18,351</u></u>	<u><u>(592)</u></u>	<u><u>(592)</u></u>

The movement on the deferred tax account is as follows

	£'000
Balance at 1 February 2009	18,351
Origination and reversal of timing differences through profit & loss account	714
Origination and reversal of timing differences through STRGL	<u>61,404</u>
Balance at 31 January 2010	<u>80,469</u>

Changes to the UK capital allowance regime will impact the capital allowances the Company can claim. The full impact of these changes is still being assessed, but is not expected to be significant. There are no other known factors which are expected to affect the future tax charge.

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS

The majority of the companies' employees at 31 January 2010 were members of the AA Pension Scheme, which is a defined benefit scheme. The assets of the Scheme are held separately from those of the Company in independently administered funds. New entrants to the Scheme accrue benefits on a career average salary basis. The Scheme has final salary sections that are closed to new entrants but open to future accrual for existing members. Certain employees are also members of an unfunded Post-retirement Private Medical Plan Scheme ('APMP'), which is a defined benefit scheme.

Regular employer contributions to the AA Schemes in the year to 31 January 2011 are estimated to be £17.1 million. During the year, one-off employer contributions to the AA Pension Scheme were £15.1 million. Further additional employer contributions will be required if there are any redundancies or augmentations during the year based on the recommendations of the Scheme Actuary.

The valuations used for FRS17 (Retirement benefits) disclosures have been based on a full assessment of the liability of the Schemes. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the year in which they occur through the Statement of Total Recognised Gains and Losses (STRGL).

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS17 (Retirement benefits) are set out below.

	2010	2009
Real rate of increase in salaries	1.1%	1.1%
Real rate of increase of pensions in payment	0.0%	0.0%
Real rate of increase of pensions in deferment	0.0%	0.0%
Discount rate	5.6%	6.9%
Inflation assumption	3.5%	3.5%
Medical premium inflation	7.5%	7.5%

Mortality assumptions are set using standard tables based on Scheme specific experience where available. Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The Scheme assumes that an active male retiring in normal health currently aged 60 will live on average for a further 26 years (2009: 26 years) and that an active female retiring in normal health currently aged 60 will live on average for a further 27 years (2009: 27 years).

The amounts recognised in the balance sheet are as follows:

	2010	2009
	£'m	£'m
AA Scheme	(135.9)	17.2
APMP Scheme	(41.6)	(37.2)
Net defined benefit pension liability	<u>(177.5)</u>	<u>(20.0)</u>

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

Amounts for the current and previous four periods are as follows

AA Scheme	31.1.2010	31.1.2009	31.1.2008	31.12.2006	31.12.2005
	£'m	£'m	£'m	£'m	£'m
Fair value of scheme assets	1,165.8	1,006.3	1,209.2	1,166.3	1,004.5
Present value of defined benefit obligation	(1,354.7)	(982.9)	(1,014.5)	(1,097.4)	(1,101.7)
Defined benefit scheme asset/(liability)	(188.9)	23.4	194.7	68.9	(97.2)
Related deferred tax (liability)/asset	53.0	(6.2)	(54.5)	(20.7)	29.2
Net asset/(liability) recognised in balance sheet	(135.9)	17.2	140.2	48.2	(68.0)

APMP Scheme:	31.1.2010	31.1.2009	31.1.2008	31.12.2006	31.12.2005
	£'m	£'m	£'m	£'m	£'m
Fair value of scheme assets	-	-	-	-	-
Present value of defined benefit obligation	(44.2)	(37.2)	(37.9)	(45.0)	(43.6)
Defined benefit scheme liability	(44.2)	(37.2)	(37.9)	(45.0)	(43.6)
Related deferred tax asset	2.6	-	-	0.5	-
Net liability recognised in balance sheet	(41.6)	(37.2)	(37.9)	(44.5)	(43.6)

The amounts recognised in the balance sheet are reconciled as follows

	2010			2009		
	AA Scheme	APMP Scheme	Total	AA Scheme	APMP Scheme	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Opening defined benefit asset/(liability)	23.4	(37.2)	(13.8)	194.7	(37.9)	156.8
Profit and loss expense	(21.6)	(2.8)	(24.4)	(5.1)	(2.6)	(7.7)
Employer contributions	30.5	1.4	31.9	23.2	1.3	24.5
(Loss)/gain recognised via the STRGL	(221.2)	(5.6)	(226.8)	(189.4)	2.0	(187.4)
Closing defined benefit asset/(liability)	(188.9)	(44.2)	(233.1)	23.4	(37.2)	(13.8)
Related deferred tax asset/(liability)	53.0	2.6	55.6	(6.2)	-	(6.2)
Net Asset/(liability) recognised in balance sheet	(135.9)	(41.6)	(177.5)	17.2	(37.2)	(20.0)

The changes in the present value of the defined benefit obligation are as follows

	2010			2009		
	AA Scheme	APMP Scheme	Total	AA Scheme	APMP Scheme	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Opening defined benefit obligation	982.9	37.2	1,020.1	1,014.5	37.9	1,052.4
Current service cost	17.5	0.2	17.7	16.6	0.2	16.8
Interest cost	67.6	2.6	70.2	63.2	2.4	65.6
Contributions by scheme participants	2.4	-	2.4	5.6	-	5.6
Actuarial losses/(gains)	325.9	5.6	331.5	(83.8)	(2.0)	(85.8)
Net benefits paid	(41.6)	(1.4)	(43.0)	(33.2)	(1.3)	(34.5)
Closing defined benefit obligation	1,354.7	44.2	1,398.9	982.9	37.2	1,020.1

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

The changes in the fair value of Scheme assets during the year are as follows

	2010			2009		
	AA Scheme £'m	APMP Scheme £'m	Total £'m	AA Scheme £'m	APMP Scheme £'m	Total £'m
Opening fair value of Scheme assets	1,006 3	-	1,006 3	1,209 2	-	1,209 2
Actual return on Scheme assets	168 2	-	168 2	(198 5)	-	(198 5)
Contributions by employer	30 5	1 4	31 9	23 2	1 3	24 5
Contributions by Scheme participants	2 4	-	2 4	5 6	-	5 6
Net benefits paid out	(41 6)	(1 4)	(43 0)	(33 2)	(1 3)	(34 5)
Closing value of Scheme assets	<u>1,165 8</u>	<u>-</u>	<u>1,165 8</u>	<u>1,006 3</u>	<u>-</u>	<u>1,006 3</u>

The fair value of Scheme assets by percentage are as follows

	2010		2009	
	AA Scheme	APMP Scheme	AA Scheme	APMP Scheme
Equities	48%	-	46%	-
Bonds	39%	-	41%	-
Property	8%	-	9%	-
Other	5%	-	4%	-
Total	<u>100%</u>	<u>-</u>	<u>100%</u>	<u>-</u>

The analysis of the actual return on Scheme assets is as follows

	2010			2009		
	AA Scheme £'m	APMP Scheme £'m	Total £'m	AA Scheme £'m	APMP Scheme £'m	Total £'m
Expected return on Scheme assets	63 5	-	63 5	74 7	-	74 7
Actual (losses)/gains on Scheme assets	104 7	-	104 7	(273 2)	-	(273 2)
Actual return on Scheme asset	<u>168 2</u>	<u>-</u>	<u>168 2</u>	<u>(198 5)</u>	<u>-</u>	<u>(198 5)</u>

An expected return is set for each asset class, reflecting a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations. A single asset return for the Schemes' assets is then derived as an average of the expected return on each asset class, weighted by the Schemes' actual allocation of that class.

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

The analysis of amounts recognised in the profit and loss account are as follows

	2010			2009		
	AA Scheme £'m	APMP Scheme £'m	Total £'m	AA Scheme £'m	APMP Scheme £'m	Total £'m
Current service cost	17.5	0.2	17.7	16.6	0.2	16.8
Interest cost	67.6	2.6	70.2	63.2	2.4	65.6
Expected return on Scheme assets	(63.5)	-	(63.5)	(74.7)	-	(74.7)
Expense taken in the profit and loss account	<u>21.6</u>	<u>2.8</u>	<u>24.4</u>	<u>5.1</u>	<u>2.6</u>	<u>7.7</u>

The analysis of net finance return on pension schemes recognised in the profit and loss account are as follows

	2010			2009		
	AA Scheme £'m	APMP Scheme £'m	Total £'m	AA Scheme £'m	APMP Scheme £'m	Total £'m
Interest cost	67.6	2.6	70.2	63.2	2.4	65.6
Expected return on Scheme assets	(63.5)	-	(63.5)	(74.7)	-	(74.7)
Net finance return recognised	<u>4.1</u>	<u>2.6</u>	<u>6.7</u>	<u>(11.5)</u>	<u>2.4</u>	<u>(9.1)</u>

The analysis of amounts recognised in the STRGL are as follows

	2010			2009		
	AA Scheme £'m	APMP Scheme £'m	Total £'m	AA Scheme £'m	APMP Scheme £'m	Total £'m
Actual (losses)/gains on Scheme assets	104.7	-	104.7	(273.2)	-	(273.2)
Changes in assumptions underlying the present value of Scheme liabilities	(325.9)	(5.6)	(331.5)	83.8	2.0	85.8
Actuarial (loss) / gain in STRGL	<u>(221.2)</u>	<u>(5.6)</u>	<u>(226.8)</u>	<u>(189.4)</u>	<u>2.0</u>	<u>(187.4)</u>
Movement in deferred tax	61.4	-	61.4	48.3	-	48.3
Total (loss) / gain in STRGL	<u>(159.8)</u>	<u>(5.6)</u>	<u>(165.4)</u>	<u>(141.1)</u>	<u>2.0</u>	<u>(139.1)</u>
Cumulative actuarial (loss) / gain in STRGL	<u>(153.0)</u>	<u>2.1</u>	<u>(150.9)</u>	<u>6.8</u>	<u>7.7</u>	<u>14.5</u>

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 PENSION COSTS AND OTHER POST RETIREMENT BENEFITS (continued)

History of experience gains and losses

AA Scheme:	31 1 2010	31 1 2009	31 1 2008	31 12 2006	31 12 2005
	£'m	£'m	£'m	£'m	£'m
Difference between expected and actual return on Scheme's assets					
- Amount (£'m)	(104.7)	273.2	(47.2)	66.2	85.9
- % of Scheme assets	(9.0%)	27.1%	(3.9%)	5.6%	8.4%
Experience gains and losses on Schemes' liabilities					
- Amount (£'m)	(11.4)	-	(25.5)	1.4	53.5
- % of present value of Scheme liabilities	0.8%	-	2.5%	0.1%	4.6%
The Scheme surplus/(deficit)					
- Fair value of assets (£'m)	1,165.8	1,006.3	1,209.2	1,166.3	1,004.5
- Actuarial value of Scheme liabilities (£'m)	(1,354.7)	(982.9)	(1,014.5)	(1,097.4)	(1,101.7)
- Surplus/(deficit) in Scheme (£'m)	(188.9)	23.4	194.7	68.9	(97.2)

APMP Scheme:	31.1.2010	31 1 2009	31 1 2008	31 12 2006	31 12 2005
	£'m	£'m	£'m	£'m	£'m
Difference between expected and actual return on Scheme's assets					
- Amount (£'m)	-	-	-	-	-
- % of Scheme assets	-	-	-	-	-
Experience gains and losses on Schemes' liabilities					
- Amount (£'m)	-	-	4.6	-	0.4
- % of present value of Scheme liabilities	-	-	12.1%	-	0.8%
The Scheme surplus/(deficit)					
- Fair value of assets (£'m)	-	-	-	-	-
- Actuarial value of Scheme liabilities (£'m)	(44.2)	(37.2)	(37.9)	(45.0)	(43.6)
- Deficit in Scheme (£'m)	(44.2)	(37.2)	(37.9)	(45.0)	(43.6)

Assumed medical cost trend rates have a significant effect on the amounts recognised in the profit and loss account. A one percentage point change in assumed medical cost trend rates would have the following effects:

	2010			2009		
	As adopted	1% pa lower	1% pa higher	As adopted	1% pa lower	1% pa higher
Medical cost trend rates	£'m	£'m	£'m	£'m	£'m	£'m
Actuarial value of APMP liabilities at 31 1 2010	44.2	(5.4)	6.5	37.2	(4.5)	5.5
Total of interest cost and service cost for year to 31 1 10	2.8	(0.5)	0.5	2.6	(0.5)	0.5

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 CALLED UP SHARE CAPITAL

	2010	2009
	£'000	£'000
Ordinary shares of £1 each		
Issued, called up and fully paid	<u>50</u>	<u>50</u>

20 PROFIT AND LOSS ACCOUNT

	2010	2009
	£'000	£'000
Opening balance	394,867	392,479
Profit for the financial year	135,176	136,611
Actuarial gains on pension schemes	(226,800)	(187,400)
Movement on deferred tax relating to pension provision	61,404	48,273
Current UK corporation tax on defined benefit pension schemes	2,100	4,759
Exchange difference on retranslation of loan balance with subsidiary undertakings	-	145
Closing balance	<u>366,747</u>	<u>394,867</u>

21 Other Reserves

	2010	2009
	£'000	£'000
Capital Contribution	<u>72,919</u>	<u>72,919</u>

22 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2010	2009
	£'000	£'000
Profit for the financial year	135,176	136,611
Other recognised gains and losses relating to the year	(163,296)	(134,223)
Net (deduction) / addition to shareholder's funds	<u>(28,120)</u>	<u>2,388</u>
 Opening shareholder's funds	 467,836	 465,448
Closing shareholder's funds	<u>439,716</u>	<u>467,836</u>

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 INVESTMENTS IN GROUP UNDERTAKINGS

Subsidiary undertaking	Country of incorporation or registration	% Holding of ordinary shares	Principal activity
AA The Driving School Agency Limited	England	100	Franchise operation
Acromas Reinsurance Company Limited	Guernsey	100	Financial Services
Associates			
A C T A SA	France	20	Roadside Services
A C T A Assistance SA	France	22	Roadside Services
A C T A Assurance SA	France	22	Roadside and Insurance Services
ARC Transistance SA	Belgium	20	Roadside Services

The Company holds these undertakings directly There are no differences between % holding and % voting rights in ordinary shares

24 GUARANTEES AND COMMITMENTS

Cross Company Guarantees

The Company, along with certain of its fellow subsidiaries, acts as Obligor on bank loans made to Acromas Mid Co Limited At the balance sheet date the principal, accrued interest, guarantees and other facilities outstanding on these bank loans was £5,176.9 million (2009 £5,164.0 million)

Operating leases

The Company is committed to make payments next year, analysed by year of expiry, as follows

	Land and buildings		Vehicles	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Within one year	22	15	172	227
In two to five years	2,992	1,463	511	417
In over five years	4,757	6,364	-	-
	<u>7,771</u>	<u>7,842</u>	<u>682</u>	<u>644</u>

At 31 January 2010, the Company had capital commitments of £126,000 (2009 £9,000) and capital expenditure authorised but not yet committed of £nil (2009 £nil)

THE AUTOMOBILE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of Acromas Holdings Limited, the Company is exempt from the requirement to disclose related party transactions with other group undertakings under FRS 8 which cancel on consolidation. Other transactions with related parties during the period comprised

Related Party	Type of Transaction	2010 £m	2009 £m
A C T A SA	Call handling fee costs	2.2	2.2
	Amount payable at 31 January	0.2	0.1
ARC Transistance SA	Registration fees	0.4	-
	Amount payable at 31 January	0.1	-

26 ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary of AA Corporation Limited, a company registered in England and Wales.

The ultimate parent undertaking, which is also the parent of the smallest and largest group to consolidate these financial statements, is Acromas Holdings Limited whose registered office is at Enbrook Park, Folkestone, Kent, CT20 3SE.

Copies of the financial statements of Acromas Holdings Limited are available from the Company Secretary at this address.